

## Chapter 1

# Getting Yourself Ready for Online Investing

---

### *In This Chapter*

- ▶ Analyzing your budget and determining how much you can invest
  - ▶ Taking the basic steps to get started
  - ▶ Understanding what returns and risks you can expect from investing
  - ▶ Getting to know your personal taste for risk
  - ▶ Understanding your approach to investing: Passive versus active
  - ▶ Finding resources online that can help you stick with a strategy
- 

**I**f you've ever watched a baby learn to walk, you've seen how cautious humans are by nature. Babies will hold themselves against a wall and scoot along before actually going toe-to-toe with gravity and trying to walk. That skepticism stays with most people as they get older. Before doing something risky, you probably think good and hard about what you stand to gain and what you might lose. Surprisingly, many online investors, especially those just starting out, lose that innate sense of risk and reward. They chase after the biggest possible returns without considering the sleepless nights they'll suffer through as those investments swing up and down. Some start buying investments they've heard others made money on without considering whether those investments are appropriate for them. Worst of all, some fall prey to fraudsters who promise huge returns in get-rich-quick schemes.

So, I've decided to start from the top and make sure that the basics are covered. In this chapter, you discover what you can expect to gain from investing online — and at what risk — so that you can decide whether this is for you. You also find out how to analyze your monthly budget so that you have cash to invest in the first place. Lastly, you find out what kind of investor you are by using online tools that measure your taste for risk. After you've gotten to know your inner investor better, you can start thinking about forming an online investment plan that won't give you an ulcer.

It's only natural if you're feeling skittish when it comes to investing, especially if you're just starting out. After all, it's been a brutal past 10 years even for veteran investors. First came the dot-com crash in 2000, then the nasty bear market in 2007, and then a vicious credit crunch in 2008 that threatened to drop-kick the economy. The stock market even short-circuited in May 2010, due in part to computerized trading, causing its value to plunge and largely rally back in just 20 minutes. Don't let these scary events, though, scare you off. Prudent investing can be a great way for you to reach your financial goals. You just need an approach that will maximize your returns while cutting your risks. And that's where this book comes in.

## *Why Investing Online Is Worth Your While*

Investing used to be easy. Your friend would recommend a broker. You'd give your money to the broker and hope for the best. But today, thanks to the explosion of Web-based investment information and low-cost online trading, you get to work a lot harder by taking charge of your investments. Lucky you! So, is the additional work worth it? In my opinion, taking the time to figure out how to invest online *is* worthwhile because

- ✓ **Investing online saves you money.** Online trading is much less expensive than dealing with a broker. You'll save tons on commissions and fees. (Say, why not invest that money you saved?)
- ✓ **Investing online gives you more control.** Instead of entrusting someone else to reach your financial goals, you'll be personally involved. It's up to you to find out about all the investments at your disposal, but you'll also be free to make decisions.
- ✓ **Investing online eliminates conflicts of interest.** By figuring out how to invest and doing it yourself, you won't have to worry about being given advice that might be in your advisors' best interest and not yours.

## *Getting Started*

I can't tell you how many investors just starting out write me and ask the exact same question. Maybe it's the same question that's running through your head right now: "I want to invest but where do I start?"

Getting started in investing seems so overwhelming that some get confused and wind up giving up and doing nothing. Others get taken in by promises of gigantic returns and enroll in seminars, subscribe to stock-picking newsletters, or agree to invest in odd get-rich-quick schemes like pay phones, only to be disappointed. Others assume that all they need to do is open a brokerage account and start madly buying stocks. But as you'll notice if you look at the Table of Contents or flip ahead in this book, I don't talk about picking a broker and opening an account until Chapter 4. You have many tasks to do before then.

But don't let that fact intimidate you. Check out my easy-to-follow list of things you'll need to do to get started. Follow these directions, and you'll be ready to open an online brokerage account and start trading:

**1. Decide how much you can save and invest.**

You can't invest if you don't have any money, and you won't have any money if you don't save. No matter how much you earn, you need to set aside some money to start investing. (Think saving is impossible? I show you computer and online tools later in this chapter that can help you build up savings that you can invest.)

**2. Master the terms.**

The world of investing has its own language. I help you to understand investingese now so that you don't get confused in the middle of a trade when you're asked to make a decision about something you've never heard of. (Chapter 2 has more on the language of online investing.)

**3. Familiarize yourself with the risks and returns of investing.**

You wouldn't jump out of an airplane without knowing the risks, right? Don't jump into investing without knowing what to expect, either. Luckily, online resources I show you later in this chapter and in Chapter 8 can help you get a feel for how markets have performed over the past 100 years. By understanding how stocks, bonds, and other investments have done, you'll know what is a reasonable return and set your goals appropriately.

I can't stress how important this step is. Investors who know how investments move don't panic — they keep their cool. Panic is your worst enemy because it has a way of talking you into doing things you'll regret later.

**4. Get a feel for how much risk you can take.**

People all have different goals for their money. You might already have a home and a car, in which case you're probably most interested in saving for retirement or building an estate for your heirs. Or perhaps you're starting a family and hope to buy a house within a year. These



two scenarios call for very different tastes for risks and *time horizons* — how long you'd be comfortable investing money before you need it. You need to know what your taste for risk is before you can invest. I show you how to measure your taste for risk later in this chapter.

**5. Understand the difference between being an active and a passive investor.**

Some investors want to outsmart the market by darting in and out of stocks at just the right times. Others think doing that is impossible and don't want the hassle of trying. At the end of this chapter, you find out how to distinguish between these two types of investors, active and passive, so that you're in a better position to choose which one you are.

**6. Find out how to turn your computer into a trading station.**

If you have a computer on your desk and a connection to the Internet, you have all you need to turn it into a source of constant market information. You just need to know where to look, which you find out in Chapter 2.

**7. Take a dry run.**

Don't laugh. Many professional money managers have told me they got their starts by pretending to pick stocks and tracking how they would have performed. It's a great way to see whether your strategy might work, before potentially losing your shirt. You can even do this online, which I cover in Chapter 2.

**8. Choose the type of account you'll use.**

You can do your investing from all sorts of accounts, all with different advantages and disadvantages. I cover them a little in this chapter and go into more detail in Chapter 3.

**9. Set up an online brokerage account.**

At last, the moment you've been waiting for: opening an online account. After you've tackled the preceding steps, you're ready to get going. This important step is covered in Chapter 4.

**10. Understand the different ways to place trades and enter orders.**

In Chapter 5, I explain the many different ways to buy and sell stocks, each with very different end results. (You also need to understand the tax ramifications of selling stocks, which I cover in Chapter 3.)

**11. Boost your knowledge.**

After you have the basics down, you're ready to tackle the later parts of the book, where I cover advanced investing topics. This involves picking an asset allocation (covered in Chapter 9), researching stocks to buy and knowing when to sell (covered in Chapter 13), and evaluating more exotic investments (the stuff you find in the chapters contained in the bonus chapters on the Web).

## The danger of doing nothing

After reading through the 11 steps for getting started, you might be wondering whether you've taken on more than you bargained for. Stick with it. The worst thing you can do now is put this book down, tell yourself you'll worry about investing later, and do nothing.

Doing nothing is extremely costly because you lose money if you don't invest. Seriously. Even if you stuffed your cash under a mattress and didn't spend a dime, each year that money becomes worth, on average, 3 percent less due to inflation. Suppose you won \$1 million in the lottery and stuffed it in a hole in your backyard with the plan of taking it out in 30 years to pay for your retirement. In 30 years, all 1 million greenbacks would still be there, but they'd only buy \$400,000 worth of goods. The risk of inflation is even more relevant in the wake of the financial crisis of 2008, which paralyzed many aspects of the banking system. To stabilize the system, the U.S. government borrowed heavily. Many investors worry that the government

might print large amounts of currency in the future to pay its bills, which could also cause inflation.

Even if you put your extra cash in a savings account, you're not doing much better. Because savings accounts usually give you access to your money anytime, they pay low levels of interest, around 1 to 2 percent. Even high-yield savings accounts and certificates of deposit (CDs) typically pay only slightly higher interest than the level of inflation or even below, meaning that you're barely keeping up if not falling behind. If you want your money to grow, you need to move money you don't need for a while out of savings and into investments. Investments have the potential to generate much higher returns.

**Note:** The Federal Reserve Bank of Minneapolis offers a free calculator that tells you how much something you bought in the past would cost today ([www.minneapolisfed.org](http://www.minneapolisfed.org)).

## Measuring How Much You Can Afford to Invest

Online investing can help you accomplish some great things. It can help you pay for a child's college tuition, buy the house you've been eyeing, retire, or travel to the moon. Okay, maybe not the last one. But you get the idea. Investing helps your money grow faster than inflation. And by investing online, you can profit even more by reducing the commissions and fees you must pay to different advisors and brokers.



One thing online investing cannot do is make something out of nothing. To make money investing online, you have to save money first. Don't get frustrated, though, because you don't need as much to get started as you might fear. If you have a job or source of income, building up ample seed money isn't too hard.

## Scouring the Web for savings help

Even fastidious savers have unavoidable basic expenses. Investors, though, find ways to be smart about even these routine costs. These sites can help you boost your savings:

- ✓ **Feed The Pig** ([www.feedthepig.org](http://www.feedthepig.org)) urges you to stop wasting money and offers tips to help you get out of debt by cutting excess spending. The site can calculate how to get out of debt and even how much you can save by packing a lunch instead of buying one.
- ✓ **Get Rich Slowly** ([www.getrichslowly.org](http://www.getrichslowly.org)) provides tips, calculators, and online tools to help you save more so that you can invest more. The site's front page has daily entries of note to savers and investors.
- ✓ **The Consumerist** ([www.consumerist.com](http://www.consumerist.com)) offers tips to educate consumers. It explains how to play hardball with service providers, like cell phone companies, that sock you with monthly fees.

## *Turning yourself into a big saver*

If you want to be an investor, you must find ways to spend less money now so that you can save the excess. That means you must retrain yourself from being a consumer to being an investor. Many beginning investors have trouble getting past this point because being a consumer is so easy. Consumers buy things that they can use and enjoy now, but almost all of those objects lose value over time. Cars, electronic gadgets, and clothing are all examples of things consumers “invest” their money in. You don’t even have to have money to spend — plenty of credit card companies will gladly loan it to you. Consumers fall into this spending pattern vortex and end up living paycheck to paycheck with nothing left to invest.

Investors, on the other hand, find ways to put off current consumption. Instead of spending money, they invest it into building businesses or goods and services that can earn money, rather than deplete it. The three main types of investments are stocks, bonds, and real estate, although I cover others in the later chapters.

Here are a few things you can do now to help you change from being a consumer to an investor:

- ✓ **Start with what you can manage by putting aside a little each month.**
- ✓ **Keep increasing what you put aside.** If you do it gradually, you won’t feel the sting of a suddenly pinched pocket.

- ✓ **Hunt for deals and use coupons and discounts.** Put aside the saved money.
- ✓ **Buy only what you need.** Don't be fooled into buying things you don't need because they're on sale.

## *Using personal finance software*

The word *budget* is a real turnoff. It conjures up images of sitting at the kitchen table with stacks of crumpled-up receipts, trying to figure out where all your money went. As an investor who prefers to do things online, this image probably isn't too appealing.

It's worth your while to find other ways to see how much money is coming in and how much is going out. Fortunately, you have a painless option available: *personal finance software*, which helps you track your spending and investments.

There used to be two big names in personal finance software: Microsoft Money and Intuit Quicken. However, in 2009, Microsoft made a surprise move and discontinued Money, ceding the entire market to Quicken.

Quicken is a great tool for measuring how much money you can afford to invest. It helps you determine how much money you spend, where it goes, and how much excess you accumulate each month that you can channel into investing. You can view the results in charts, such as the one shown in Figure 1-1. Quicken can also create a budget for you, essentially at the click of a button. The software alerts you if you're spending more on a certain category than you budgeted for. The biggest gripe against the software is that you have to get your transactions into it first. You can type them in by hand, which is kind of a pain, or you can download them from your credit card company, bank, or brokerage. Quicken also costs you \$60 for the Deluxe edition. Intuit will refund your money if you don't like the software after using it for less than 60 days, though. It's also important to note that Quicken's online features, including stock-quote downloads, stop working unless you upgrade to the latest version every three years.



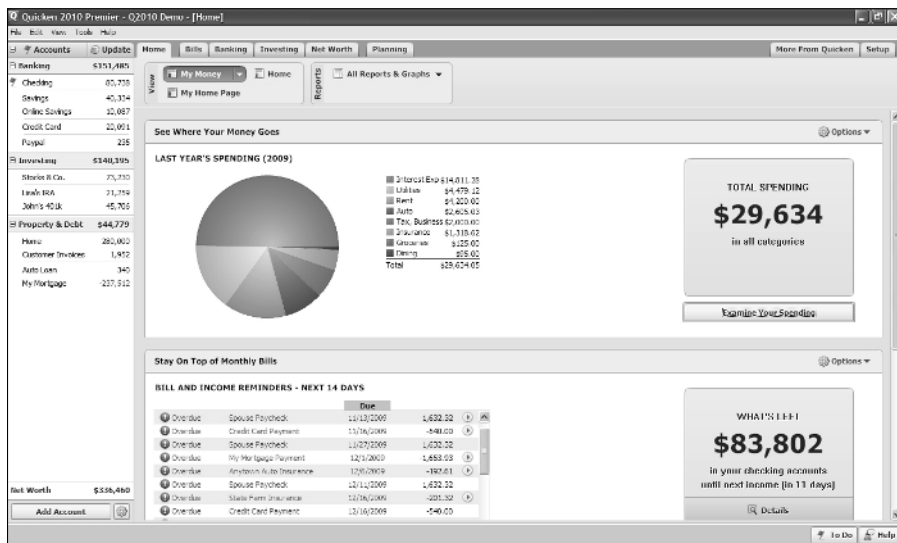
If you were using Microsoft Money and want to switch to Quicken, it's much easier than it used to be. In 2009, Quicken added a converter that does a good job of importing Money files. I've tested the converter, and it works very well.

Quicken does more than help you set and stick to a budget. It helps you with more advanced topics, such as managing your portfolio and taxes — stuff I cover later in this book.

Quicken might be the big kid on the block, but it isn't completely alone. Be sure to check out these other options (some of which are free!):

- ✓ **Moneydance** ([www.moneydance.com](http://www.moneydance.com)) comes in versions for Windows, Macintosh, and Linux. If you're already using Money or Quicken, no worries — Moneydance can translate your files. It's comparably priced at \$40 and offers a trial that lets you use the software until you hit 100 transactions.
- ✓ **Money Manager Ex** ([www.codelathe.com/mmex/](http://www.codelathe.com/mmex/)) tries to make the power of software like Money and Quicken free. It's *open-source* personal finance software, programmed by hobbyists and offered to the public as a service. If you like it, you can donate to the programmers who have created it.
- ✓ **GnuCash** ([www.gnucash.org](http://www.gnucash.org)) has one big thing going for it: It's free. The software is updated and maintained by a host of freelance programmers, much like Money Manager Ex. Be warned, though, that Gnu Cash lacks the polish of some of the other personal finance software and is harder to navigate. Some versions of the software are considered “unstable” even by the programmers who coded them — at least until all the bugs are fixed.
- ✓ **XeCheck** ([www.xecheck.com](http://www.xecheck.com)) is surprisingly slick and well-designed, given that it's not from a massive software company like Intuit. The premiere version, which costs \$32, reminds me of Money visually, making it an option for former Money users.
- ✓ **Buddi** (<http://buddi.digitalcave.ca/index.jsp>) is another free option. But unlike the other personal finance software, Buddi is designed to track budgets and spending, not investment portfolios.

**Figure 1-1:** Intuit's Quicken allows you to slice and dice your budget and find out where your money is going.







Microsoft also provides several helpful budgeting spreadsheets, which you can find by entering the word **budget** in the search field of the Microsoft Office Templates home page (<http://office.microsoft.com/en-us/templates/default.aspx>). The Web site It's Your Money ([www.mdmproofing.com/iy/excel.htm](http://www.mdmproofing.com/iy/excel.htm)) also provides several spreadsheets to help you manage your money.

## *Perusing personal finance Web sites*

Before you can put personal finance software to work, you often need to download and install it on your computer. You then need to spend some time figuring out how to actually use it. If that's exactly the kind of thing that scared you away from making a budget in the first place, you might want to consider *personal finance Web sites*. Personal finance Web sites' main benefits include the fact that they let you see your information from any PC connected to the Internet, and you generally don't have to install software to make them work. Here are a few to check out:

- ✓ **Mint.com** ([www.mint.com](http://www.mint.com)) built a loyal following with its simplicity. Mint was so successful, in fact, that Intuit bought the company in 2009, shut down its own Quicken Online site, and turned Mint into its online personal finance site. Mint pulls in all your bank and brokerage accounts and imports all your financial information. For users just looking to get up and running fast, Mint is tough to beat. It's also free. Mint, however, lacks many of the powerful investment tracking features in Quicken, including the ability to precisely track how much you paid for certain investments — your cost basis — which is very important, as you discover later. And you'll need to be comfortable handing over all your account numbers and passwords to a third party.
- ✓ **Mvelopes Personal** ([www.mvelopes.com](http://www.mvelopes.com)) can be your spending cop that tells you you're spending too much. Mvelopes is a Web-based spending tracker that tries to be the digital version of envelope-based budgeting. Rather than stuffing cash in envelopes set aside for certain expenses, Mvelopes lets you decide before you get a paycheck how much you're willing to spend in certain categories (such as dining out) and plan your spending for the month. As the month progresses, you download all your spending from banks and credit card companies and subtract each transaction from the envelopes you set aside. That way, if you're spending too much on restaurants, for instance, you know to cut back or to skimp in other areas. It also comes with some electronic bill payment services. It's not a cheap tool, though, and will set you back \$130 a year, although you can consider the 30-day free trial or a two-year plan for \$190.
- ✓ **Wesabe** ([www.wesabe.com](http://www.wesabe.com)) lets you enter your budget and track it. But it has a twist: Other Wesabe users can see where your money is going and offer suggestions on ways to save more. It's free, too, which saves you some money right away.

- ✓ **MoneyStrands** ([www.money.strands.com](http://www.money.strands.com)) tries to make saving your money hip, if that's possible. The site is full of colorful cartoons, making it appear fun to use, which might make it seem less intimidating to some. The site not only helps you track how you're doing financially but also compares you with others and provides savings tips.
- ✓ **Geezeo** ([www.geezeo.com](http://www.geezeo.com)) is designed for people who want to track their spending but are more likely to use a cell phone than to sit in front of a computer. With your permission, the site pulls in your account balances from all your financial institutions. That way, when you're shopping, you can send a text message to Geezeo and get a message back that shows all your account balances. Hopefully that will remind you to not spend money you don't have. Other users also offer tips on the Web site on how to save money.



Putting all your financial data online is simple and convenient, but it can be a bad idea for many investors. First, there are the security concerns with entrusting all your financial data to strangers over the Internet. But beyond that, if a Web site calls it quits one day, you might lose access to the historical financial and investing records you kept on the site. Cake Financial is a case in point. The investment tracking site was bought by E\*TRADE in January 2010 and, without warning, shut down — leaving investors without access to their financial information. This is a big reason why personal financial software, like Quicken, may be preferable because your data is stored on your computer's hard drive where you can always access it.

*Personal finance information sites* don't track your transactions, but they're still able to give you the big picture. The following sites are worth checking out:

- ✓ **The Financial Planning Association's Life Goals** ([www.fpaforfinancialplanning.org/LifeGoals](http://www.fpaforfinancialplanning.org/LifeGoals)) lets you click on financial goals, like "Saving for Retirement," and get advice.
- ✓ **Smartaboutmoney.org** ([www.smartaboutmoney.org](http://www.smartaboutmoney.org)) provides various tips on how to save more and boost your financial strength.
- ✓ **U.S. Financial Literacy and Education Commission** ([www.mymoney.gov](http://www.mymoney.gov)) is a government-run site that steps you through everything from saving more to avoiding frauds. It's also a good directory of useful information that's available from other government agencies.



Many financial information Web sites are designed for older investors who are looking for information on homes, kids, and retirement. If you're a parent hoping that your kids will be more responsible with money, check out Young Money ([www.youngmoney.com](http://www.youngmoney.com)). You can find advice that's more targeted for young adults, such as managing credit card debt or avoiding campus scams.

## *Saving with Web-based savings calculators*

If personal finance software or sites seem too much like a chore or too Big Brotherish, you might consider these free Web-based tools that measure how much you could save, in theory, based on a few parameters that you enter:

- ✓ **MSN Money's Savings Calculator** ([moneycentral.msn.com/personal-finance/calculators/aim\\_to\\_save\\_calculator/home.aspx](http://moneycentral.msn.com/personal-finance/calculators/aim_to_save_calculator/home.aspx)) asks you a series of questions to help you analyze your spending and find out how much you can save, how long it'll take you to save a certain amount, how much you must save to meet a goal, or how long it will take to save \$1 million.
- ✓ **Young Money's Home Budget Calculator** ([www.youngmoney.com/home-budget](http://www.youngmoney.com/home-budget)) helps you break down where all your money is going so that you can determine how much you can save. It steps you through all your major expenses and helps you find ways to waste less.
- ✓ **Bankrate.com's Saving for a Goal Calculator** ([www.bankrate.com/calculators/savings/saving-goals-calculator.aspx](http://www.bankrate.com/calculators/savings/saving-goals-calculator.aspx)) asks you what you're saving for, be it college or buying a car. It then breaks down your financial objective and tells you how much you need to save to meet said objective.
- ✓ **Financial Industry Regulatory Authority's (FINRA's) Savings Calculator** (<http://apps.finra.org/Calcs/1/Savings>) lets you enter different combinations of variables such as how much you've saved already and how much additional money you intend to save. It then gives you a realistic estimate of how much you can expect to save.
- ✓ **USATODAY.com's The Real Person's Budget** ([www.usatoday.com/money/perfi/financial-diet/real-person-budget.xls](http://www.usatoday.com/money/perfi/financial-diet/real-person-budget.xls)) is a spreadsheet developed by a personal finance advisor to help you interactively figure out where your money is going.

## *Relying on the residual method*

Are you the kind of person who has no idea how much money you have until you take out a wad of twenties from the ATM and check the balance on the receipt? If so, you're probably not the budgeting type, and the preceding options are too strict. For you, the best option might be to open a savings account with your bank or open a high-yield savings account and transfer

in money you know you won't need. Watch the savings account over the months and find out how much it grows. That can give you a good idea of how much you could save without even feeling it. You can find out where you can get a high rate of interest on your savings from Bankrate.com ([www.bankrate.com/funnel/savings](http://www.bankrate.com/funnel/savings)).

## *Using Web-based goal-savings calculators*

All the preceding methods help you determine how much you can save. But the following sites help you determine how much you *should* save to reach specific goals:

- ✓ **Vanguard's retirement calculator** (<https://personal.vanguard.com/us/insights/retirement/saving/set-retirement-goals>) helps you figure out how much you should save by measuring how much you will need. The site prompts you to enter how much you make and how long you have until retirement to help you figure out how much you need to save. Vanguard offers similar tools to help you decide how much you need to save for other goals, such as paying for a child's college tuition.
- ✓ **T. Rowe Price's Retirement Income Calculator** ([www3.troweprice.com/ric/ric/public/ric.do](http://www3.troweprice.com/ric/ric/public/ric.do)) uses advanced computerized modeling to show you how much you need to save no matter what the stock market does. It runs your variables through a "Monte Carlo simulation," which simulates what happens to your savings no matter what and gives you the odds that you'll have enough money.
- ✓ **Nationwide's RetirAbility Check** ([www.nationwide.com/retirability-check.jsp?wtgo=retirability](http://www.nationwide.com/retirability-check.jsp?wtgo=retirability)) asks you some questions and then rates your ability to retire when and how you plan to. It also suggests tips on improving your odds of saving as much as you hope.
- ✓ **Financial Calculators** ([www.financialcalculators.com](http://www.financialcalculators.com)) can help you calculate just about any financial goal you might have — from buying a home to saving for college.
- ✓ **ESPlanner** (<https://basic.esplanner.com>) helps you make many of the estimates you'll need to forecast your retirement needs in the future. Developed in part by Laurence Kotlikoff, professor of economics at Boston University, ESPlanner steps you through what your actual spending might look like when you're retired and uses that information to help you set savings goals.

## Being prepared for emergencies

When creating your budget and moving money from savings to an investment account, be sure to keep an emergency fund on hand. This is money that's readily available in case of an emergency, stored in an account you can access immediately, such as a bank savings account. A decent guideline is to always have enough cash handy for at least six months of living expenses. Add up how much you spend

each month on necessities such as housing (rent or mortgage and property taxes), food, utilities, and transportation. Multiply by six to get a general idea of how much you should have for emergencies. During the 2008 financial crisis, some experts increased their recommendation for an emergency fund to 9 to 12 months of cash on hand.

## Deciding How You Plan to Save

After you've determined how much you need to save and how much you can save, you need to put your plan into action. The way you do this really depends on how good you are at handling your money and saving. The different methods are as follows:

- ✔ **Automatic withdrawals:** Ever hear the cliché “pay yourself first”? It's a trite saying that actually makes sense. The idea is that before you go shopping for that big-screen TV or start feeling rich after payday, you should set money aside for savings. Some people have the discipline to do this themselves, but many do not. For those people, the best option is to set up *automatic withdrawals*, which is a way of giving a brokerage firm or bank permission to automatically extract money once a month. When the money is out of your hands, you won't be tempted to spend it.
- ✔ **Retirement plans:** If your goal is investing for retirement, you want to find out what retirement savings plans are available to you. If you're an employee, you might have access to a 401(k) plan. And if you're self-employed, you might consider various individual retirement accounts (also known as IRAs). When you're starting to invest, taking advantage of available retirement plans is usually your best bet. I cover this in more detail in Chapter 3.
- ✔ **On your own:** If you have money left over after paying all your bills, don't let it sit in a savings account. Leaving cash in a low-interest-bearing account is like giving a bank a cheap loan. Put your money to work for you. Brokers make it easy for you to get money to them via electronic transfers.

# Want to Be a Successful Investor? Start Now!

The greatest force all investors have is time. Don't waste it. The sooner you start to save and invest, the more likely you will be successful. To explain, take the example of five people, each of whom wants to have \$1 million in the bank by the time they retire at age 65. The first investor starts when she is 20, followed by a 30-year-old, 40-year-old, 50-year-old, and 60-year-old. Assuming that each investor starts with nothing and averages 10 percent returns each year (more on this later), Table 1-1 describes how much each must save per month to reach his or her goals.

Table 1-1    How Much Each Must Save to Get \$1 Million, Part I	
<i>An Investor Who Is</i>	<i>Must Invest This Much Each Month to Have \$1 Million at Age 65</i>
20 years old	\$95.40
30 years old	\$263.40
40 years old	\$753.67
50 years old	\$2,412.72
60 years old	\$12,913.71

See, youth has its advantages. A 20-year-old who saves less than \$100 a month will end up with the same amount of money as a 60-year-old who squirrels away \$12,914 a month or \$154,968 a year! That's largely due to the fact that money that's invested early has more time to brew. And over time, the money snowballs and *compounds*, which is a concept I cover later in this chapter.

## Learning the Lingo

Just about any profession, hobby, or pursuit has its own lingo. Car fanatics, chess players, and computer hobbyists have terms of art that they seem to learn through osmosis. Online investing is no different. Many terms, like stocks and bonds, you might have heard but not completely understood. As you read through this book and browse the Web sites I mention, you'll probably periodically stumble on unfamiliar words.

Don't expect a standard dictionary to help much. Investing terms can be so specialized and precise that old Webster might not be a big help. Fortunately, a number of excellent online investing glossaries explain in detail what investing terms mean. Here are few for you to check out:

- ✓ **Investopedia** ([www.investopedia.com](http://www.investopedia.com)) has one of the most comprehensive databases of investing terms, with more than 5,000 entries. The site not only covers the basics but also explains advanced terms in great detail. It's also fully searchable so that you don't waste time getting the answer.
- ✓ **Yahoo! Financial Glossary** (<http://biz.yahoo.com/f/g>) is all about quick answers. The database, written by Campbell Harvey, a professor of finance at Duke University, explains most basic investment terms in one or two sentences.
- ✓ **InvestorWords** ([www.investorwords.com](http://www.investorwords.com)) has a fully searchable database of investment terms, but it also makes the dictionary a bit more interesting with unique features like a "term of the day" and a summary of terms that have recently-rewritten definitions.
- ✓ **Investor Glossary** ([www.investorglossary.com](http://www.investorglossary.com)) covers all the basics but also attempts to describe some slang terms in the industry, such as an investing philosophy known as *the Dogs of the Dow*.

## Setting Your Expectations

Have you ever talked to a professional investor or financial advisor? One of the first things you'll hear is how much experience he or she has. I can't tell you how many times I've been told, "I've been on Wall Street for 30 years. I've seen it all."

Some of that is certainly old-fashioned bragging. But these claims are common because in investing, experience does count. It's easy to say you could endure a bear market until you're watching white-knuckled and sweating bullets as your nest egg shrivels from \$100,000 to \$80,000 or \$50,000. Experience brings perspective, which is very important.

But if you're new to investing, don't despair. Online tools can help you acquire the brain of a grizzled Wall Street sage. And don't forget that I'm here to set you straight as well. In fact, I'm set to start talking about how much you can expect to make from investing. And you'll be hearing a great deal about a little something called the *rate of return*.

## *Keeping up with the rate of return*

Don't let the term *rate of return* scare you. It's the most basic concept in investing, and you can master it. Just remember that it's the amount, measured as a percent, that your investment increases in value in a certain period of time. If you have a savings account, you understand the concept already. If you put \$100 in a bank account paying 4.5 percent interest, you know that by the end of the year, you will have received \$4.50 in interest. You earned a 4.5 percent annual rate of return. Rates of return are useful in investing because they work as a report card to tell investors how well an investment is doing, no matter how much money is invested.

You can calculate rates of return yourself with the following:

- ✓ **A formula:** Subtract an asset's previous value from its current value, divide the difference by the asset's previous value, and multiply by 100. If a stock rises from \$15 to \$32 a share, you would calculate the rate of return by first subtracting 15 from 32 to get 17. Next, divide 17 by 15 and multiply by 100. The rate of return is 113.3 percent.
- ✓ **Financial calculators:** You can use the Hewlett-Packard 12c that financial types always carry. If you have this calculator, you can find out how to crunch a rate of return with an easy-to-follow tutorial located at <http://h20331.www2.hp.com/Hpsub/downloads/HP12Cpercents.pdf>. (Look for Example 5.)
- ✓ **Microsoft Excel spreadsheet software:** This software, which is available on most computers, calculates rates of return fairly easily. You can find out how with the instructions at [www.office.microsoft.com/en-us/excel/HP011225061033.aspx](http://www.office.microsoft.com/en-us/excel/HP011225061033.aspx).
- ✓ **Financial Web sites:** Many handy sites can calculate rates of return for you, including [www.moneychimp.com/calculator/discount\\_rate\\_calculator.htm](http://www.moneychimp.com/calculator/discount_rate_calculator.htm).



When you calculate the rate of return for a portfolio you've added money to or taken money from, you must take an extra step. I explain how to do that in Chapter 8.

## *The power of compounding*

Famous physicist Albert Einstein once called *compounding* the most powerful force in the universe. Compounding is when money you invest earns a return and then that return also earns a return. (Dizzy yet?) When you leave money invested for a long time, the power of compounding kicks in.



Imagine that you've deposited \$100 in an account that pays 4.5 percent in interest a year. In the first year, you'd earn \$4.50 in interest, which brings your balance to \$104.50. But in the second year, you'd earn interest of \$4.70. Why? Because you've also earned 4.5 percent on the \$4.50 in interest you earned. The longer you're invested, the more time your money has to compound.



You can enter your own information and see how powerful a force compounding is at this site: [www.dinkytown.net/java/CompoundSavings.html](http://www.dinkytown.net/java/CompoundSavings.html).

Compounding works on your side to fight against inflation. Financial data and news provider Bloomberg has a Web-based calculator ([www.bloomberg.com/invest/calculators/returns.html](http://www.bloomberg.com/invest/calculators/returns.html)) that tells you whether your rate of return is keeping you ahead of inflation.

## *Determining How Much You Can Expect to Profit*

Why bother investing online? To make money, of course. But how much do you want to make? Understanding what you can expect to earn is where you need to start. Whenever you hear about an investment and what kinds of returns it promises, you should be able to mentally compare it with the kinds of returns you can expect from stocks, bonds, and other investments. That way, you know whether the returns you're being promised are too good to be true.

How do you do this? By relying on the hard work of academics who have done some heavy lifting. Academics and market research firms have ranked investments by how well they've done over the years. And I'm not just talking a few years, but for decades — in many cases, going back to the 1920s and earlier. The amount of work that's gone into measuring historical rates of returns is staggering, but if you're using online resources, you're just a click away from finding out how most types of assets have done.

What you expect to earn is a number that can affect most of your investment decisions, usually rather dramatically. The following table is a revised version of Table 1-1 — the one that showed how five different people could expect to save \$1 million. Table 1-2 looks at how much they must save to make their goal changes based on how much they think they will earn from their investments.

**Table 1-2 How Much Each Must Save to Get \$1 Million, Part II**

<i><b>An Investor Who Is</b></i>	<i><b>Must Invest This Much Each Month if She Earns 5%</b></i>	<i><b>Must Invest This Much Each Month if She Earns 10%</b></i>	<i><b>Must Invest This Much Each Month if She Earns 15%</b></i>
20 years old	\$493.48	\$95.40	\$15.28
30 years old	\$880.21	\$263.40	\$68.13
40 years old	\$1,679	\$753.67	\$308.31
50 years old	\$3,741	\$2,412.72	\$1,495.87
60 years old	\$14,704.57	\$12,913.71	\$11,289.93

The 20-year-old must save nearly \$500 a month extra if she thinks she will earn only 5 percent a year from her investments instead of 15 percent. But even scarier, if she saves \$15.28 thinking she'll earn 15 percent a year, but earns only 5 percent, she'll have just \$30,963 instead of the \$1 million she was counting on.

## *Studying the past*

If someone asks you how stocks are doing, he often means how much they went up or down that day. Financial TV stations reinforce this preoccupation with the here-and-now by scrolling second-by-second moves in stock prices across the bottom of the screen.

But, second-by-second moves in stocks don't really tell you much. If a stock goes down a bit and a company didn't report the news, did anything really change during that second? Watching short-term movements of stock prices doesn't mean much in the overall scheme of things.

To understand how investments behave, it's more helpful to analyze their movements over as many years as you can. That way, recessions are blended with boom times to get you to a real, smooth average. Doing this requires the painstaking method of processing dozens of annual returns of stocks and analyzing the data. Luckily, some academics and industry pioneers have done much of the work for you, and you can access their findings if you know where to look. And I just happen to know a few places where you can start your search:

- ✓ **Bogle Financial Market Research** ([www.vanguard.com/bogle\\_site/bogle\\_home.html](http://www.vanguard.com/bogle_site/bogle_home.html)) is the Web site maintained by the founder of Vanguard, John C. Bogle. Bogle revolutionized the investment industry by creating the world's largest index mutual fund, the Vanguard 500, which is designed to mirror the performance of the S&P 500 stock market index. Stock market indexes, such as the Standard & Poor's 500

index and Dow Jones Industrial Average, are benchmarks that let you track how the market is doing.

Bogle's site is invaluable because he explains that the market, on average, returns about 10 percent a year. That benchmark will be very important later as you evaluate different stocks. Indexes are covered in more detail in Chapter 8.

- ✓ **Russell's Web site** ([www.russell.com](http://www.russell.com)) lets you look up how all types of stocks, ranging from small to large in addition to bonds, have done over the years. You'll find a handy Index Returns Calculator that lets you see how different types of stocks have done at different points in history: [www.russell.com/Indexes/data/calculator/index\\_calculator.asp](http://www.russell.com/Indexes/data/calculator/index_calculator.asp).

- ✓ **Kenneth R. French's Web site** at [http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data\\_library.html#HistBenchmarks](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html#HistBenchmarks).

This site is complicated but worth the effort. French, a professor at Dartmouth, along with University of Chicago's Eugene Fama ([faculty.chicagobooth.edu/eugene.fama/](http://faculty.chicagobooth.edu/eugene.fama/)), revolutionized investing with an analysis that found that essentially three things move stocks: what the general market is doing, how big the company is, and how pricey the shares are. Both pros keep statistics on their sites on how stocks move.

- ✓ **Index Funds Advisors** ([www.ifa.com](http://www.ifa.com)) compiles much of the research done by Fama and French and helps explain it in plain language. You can order a colorful book from the site, *Index Funds: The 12-Step Program for Active Investors*, by Mark T. Hebner (IFA). The book explains how different types of stocks perform in the long term and shows how much you can expect to gain. It also shows long-term returns of bonds. You can download the book for free if you take the site's Risk Capacity Survey, explained later in this chapter.

- ✓ **Robert Shiller's Web site** ([www.econ.yale.edu/~shiller](http://www.econ.yale.edu/~shiller)) contains exhaustive data on how markets have done over the long term. You can view the data and make your own conclusions. Shiller is a well-known economics professor at Yale University.

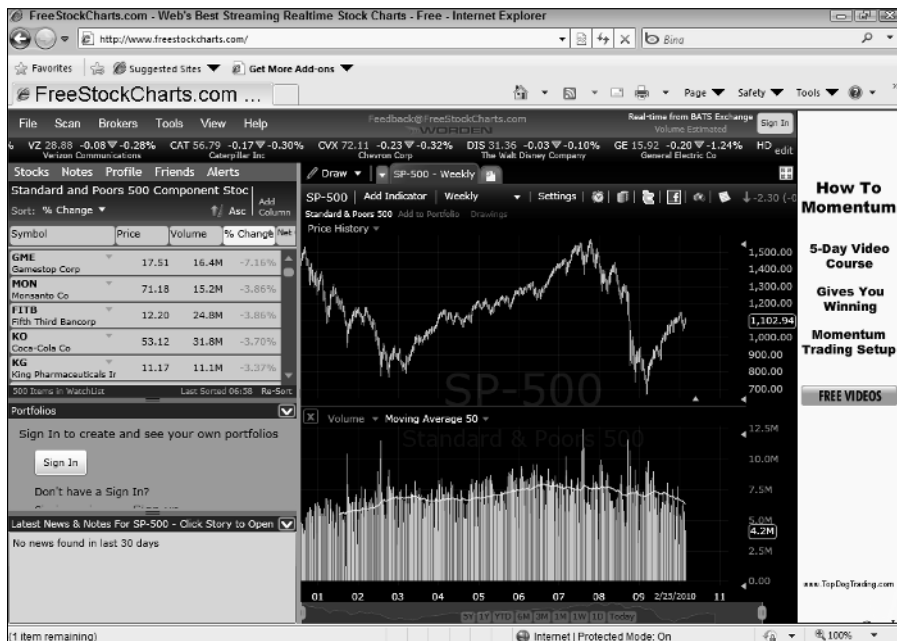
- ✓ **Standard & Poor's Web site** ([www.standardandpoors.com/indices/market-attributes/en/us](http://www.standardandpoors.com/indices/market-attributes/en/us)) contains a full record of the returns from the Standard & Poor's 500 index going back for decades. This is invaluable data because you can understand how markets tend to move, instead of worrying about things that have never happened. Click the arrow to the left of where it says S&P 500 Monthly Performance Data. Click the Monthly and Annual Returns link, which then prompts you to open an Excel file. Scroll down the spreadsheet's annual returns. That can give you an idea of how volatile stocks can be, but also what returns are possible if you stay invested.

- ✓ **FreeStockCharts.com** ([www.freestockcharts.com](http://www.freestockcharts.com)) allows you to download the stock trading history of most investments. Just enter the name or symbol of the investment you're interested in and click the OK button. If you click the Export Chart icon, which looks like two small cylinders, you can download data into Excel. Figure 1-2 shows you what the charts look like. The site keeps data on most stocks going back to 1985.
- ✓ **MSN Money** (<http://moneycentral.msn.com>) is another source of historical stock price data downloads. Enter the investment symbol in the Name or Symbol(s) blank and click the Get Quote button. Next, click the Historical link on the left side of the page. You can customize how far back the stock history should go. Click the Max button to get the longest trading history possible on the stock or investment. Next, scroll down quite a bit and you'll see a small link in the lower-right corner labeled "View price history with dividends/splits." Click the link and you can see the price data, which can be downloaded. One of the site's greatest strengths is that it keeps data on many stocks going back to their first days of trading.



Don't get too hung up if you don't understand everything on these sites. Several get pretty sophisticated, especially French's. Just scan through the annual returns so that you can get a general feel for how markets behave over time — the idea here is for you to gain perspective, not cram for an econ Ph.D.

**Figure 1-2:** FreeStockCharts.com lets you download long-term historical prices of stocks and market indexes using drop-down lists.



## *What the past tells you about the future*

Exhaustive studies of markets have shown us that stocks, in general, return about 10 percent a year. Through the years, 10 percent returns have been the benchmark for long-term performance, making it a good measuring stick for you and something to help you keep your bearings. But long-term studies of securities also show that, to get higher returns, you usually must also accept more risk. Table 1-3 shows how investors must often accept more risk to get a higher return.

<b>Table 1-3</b>		
<b>No Pain, No Gain</b>		
<b><i>Investment</i></b>	<b><i>Average Annual Return</i></b>	<b><i>Relative Risk</i></b>
Stocks	9.8% (based on S&P 500 since 1926)	Riskiest
Corporate bonds	5.9%	Moderately risky
Treasury bills (loans to the U.S. government that come due in a year or less)	3.7%	Least risky

*Source: Morningstar*



Don't make the mistake of thinking that investing in stocks guarantees you a 10 percent return every year, like a savings account. That's not the case. Stocks are risky and tend to move in erratic patterns, and they test your confidence with sudden drops. In fact, each year stocks typically posted a total return, including dividends, somewhere between a loss of 10 percent and a gain of 28.7 percent, according to the folks at the Index Funds Advisors Web site ([www.ifa.com](http://www.ifa.com)). And get this, since 1926, the Standard & Poor's 500 index has gained between 10.0 percent and 10.9 percent only four times and returned 10 percent only once, in 1966. The market's brutal decline in 2008, which chewed up a third of stocks' value, is a good reminder of how violent stocks can be in the short term. Don't let short-term swings in stocks derail your long-term plan, but *do* be aware ahead of time of the fact that markets move in violent ways. That way you won't be tempted to do something that you'll regret later. Volatility is the price you must pay to get returns.

Table 1-4 shows you just how crazy the market's movements can be in the short term, using the history of the popular Standard & Poor's 500 index since 1928.

## Why knowing the past is valuable

By studying how investments have done in the past, you get an idea, on average, of what to expect for the future. This gives you perspective that lets you not only decide whether an investment is worthwhile but also gives you a B.S. meter. If you get a flyer in the mail talking up a “promising new company” that’s expected to generate 10 percent returns, walk away. Why would you take a chance on a shaky company if

you can expect the same return by investing in a lower-risk, diversified index fund? Similarly, a return that’s much higher than 10 percent must be much riskier, no matter what the flyer says. Also, investments that claim they return 10 percent a year, guaranteed, are also suspicious because you should expect some major ups and downs to get that double-digit return.

**Table 1-4 Wild Days for the S&P 500**

<i>Event</i>	<i>Amount</i>
Number of days up	11,217 (average gain 0.75%)
Number of days down	9,984 (average loss 0.79%)
Best one-day percentage gain	March 15, 1933, up 16.6%
Worst one-day percentage loss	Oct. 19, 1987, down 20.5%
Best year	1933, up 46.6%
Worst year	1931, down 47.1%
Best month	April 1933, up 42.2%
Worst month	Sept. 1931, down 29.9%

*Source: Standard & Poor’s*

## Gut-Check Time: How Much Risk Can You Take?

It’s time to get a grip — a grip on how much you can invest, that is. Most beginning investors are so interested in finding stocks that make them rich overnight that they lose sight of risk. But academic studies show that risk and return go hand in hand. That’s why you need to know how much risk you can stomach before you start looking for investments and buying them online.

Several excellent online tools can help you get a handle on how much of a financial thrill seeker you are. Most are structured like interviews that ask you a number of questions and help you decide what kind of investor you are. These are kind of like personality tests for your investment taste. I cover several of these in more detail in Chapter 9, where I discuss how to create an investing road map, called an *asset allocation*. For now, these questionnaires are worthwhile to take right away so that you can understand what kind of investor you are:

- ✓ **Vanguard's Investor Questionnaire** (<https://personal.vanguard.com/us/FundsInvQuestionnaire>) asks you ten salient questions to determine how much of a risk taker you are with your money. It determines what your ideal asset allocation is. Take note of the breakdown. The closer to 100 percent that Vanguard recommends you put in stocks, the more risk-tolerant you are, and the closer to 100 percent in bonds, the less risk-tolerant you are.
- ✓ **Index Funds Advisors Risk Capacity Survey** ([www.ifa.com/SurveyNET/index.aspx](http://www.ifa.com/SurveyNET/index.aspx)) offers a quick risk survey that can tell you what kind of investor you are after answering just five questions. You can also find a complete risk capacity survey that hits you with a few dozen questions. Whichever you choose, the survey can characterize what kind of investor you are and even display a painting that portrays your risk tolerance.
- ✓ **SmartMoney Asset Allocator** ([www.smartmoney.com/investing/basics/the-smartmoney-one-asset-allocation-system-17605](http://www.smartmoney.com/investing/basics/the-smartmoney-one-asset-allocation-system-17605)) couldn't be much easier to use. You slide a variety of bars to indicate your financial goals, ranging from your desire to leave money for heirs to the number of years to retirement. The site then gives you a general breakdown of where you should invest your money based on your risk preference.

## *Passive or Active? Deciding What Kind of Investor You Plan to Be*

Investing might not seem controversial, but it shouldn't surprise you that anytime you're talking about money, people have some strong opinions about the right way to do things. The first way investors categorize themselves is by whether they are passive or active. Because these two approaches are so different, the following sections help you think about what they are and which camp you see yourself in. Where you stand not only affects which broker is best for you, as discussed in Chapter 4, but also affects which chapters in this book appeal to you most.

## *How to know if you're a passive investor*

Passive investors don't try to beat the stock market. They merely try to keep up with it by owning all the stocks in an *index*. An index is a basket of stocks that mirrors the market. Passive investors are happy matching the market's performance, knowing that they can boost their real returns with a few techniques I discuss in Chapter 9.

You know you're a passive investor if you like the following ideas:

- ✓ **Not picking individual stocks:** These investors buy large baskets of stocks that mirror the performance of popular stock indexes like the Dow Jones Industrial Average or the Standard & Poor's 500 index so that they don't worry about whether a small upstart company they invested in will release its new product on time and whether it will be well received.
- ✓ **Owning mutual and exchange-traded funds:** Because passive investors aren't looking for the next Microsoft, they buy mutual and exchange-traded funds that buy hundreds of stocks. (I cover mutual and exchange-traded funds in more detail in Chapters 10 and 11, respectively.)
- ✓ **Reducing taxes:** Passive investors tend to buy investments and forget about them until many years later when they need the money. This can be lucrative because by holding onto diversified investments for a long time and not selling them, passive investors can postpone when they have to pay capital gains taxes. (I cover capital gains taxes in more detail in Chapter 3.)
- ✓ **Not stressing about stocks' daily, monthly, or even annual movements:** Passive investors tend to buy index or mutual funds and forget about them. They don't need to sit in front of financial TV shows, read magazines, or worry about where stocks are moving. They're invested for the long term, and everything else is just noise to them.

## *Sites for passive investors to start with*

One of the toughest things about being a passive investor is sitting still during a bull market when everyone else seems to be making more than you. Yes, you might be able to turn off the TV, but inevitably you'll bump into someone who brags about his or her giant gains and laughs at you for being satisfied with 10 percent market returns.

When that happens, it's even more important to stick with your philosophy. Following the crowd at this moment undermines the value of your strategy.



That's why even passive investors are well served going to Web sites where other passive investors congregate:

- ✓ **Bogleheads** ([www.bogleheads.org](http://www.bogleheads.org)) is an electronic water cooler for fans of Vanguard index funds and passive investors to meet, encourage, and advise each other. They call themselves Bogleheads in honor of the founder of Vanguard, John Bogle.
- ✓ **Indexfundfan @ Indextown** ([www.indextown.com](http://www.indextown.com)) is a blog written for investors who believe in the long-term success of buying mutual funds tied to indexes.
- ✓ **The Arithmetic of Active Management** ([www.stanford.edu/~wfsharpe/art/active/active.htm](http://www.stanford.edu/~wfsharpe/art/active/active.htm)) is a reprint of an article by an early proponent of passive investing, William Sharpe, who explains why active investing can never win.
- ✓ **Vanguard's Web site** ([www.vanguard.com](http://www.vanguard.com)) contains many helpful stories about the power of index investing and offers them for free, even if you don't have an account.
- ✓ **Mad Money Machine** ([www.madmoneymachine.com](http://www.madmoneymachine.com)) is an Internet radio show that tries to make the seemingly boring world of passive investing more exciting. The host, Paul Douglas Boyer, weaves jokes, music, and facts in a way to keep you investing passively. (The site also includes articles for your reading pleasure.)

## *How to know whether you're an active investor*

Active investors almost feel sorry for passive investors. Why would anyone be satisfied just matching the stock market and not even try to do better? Active investors feel that if you're smart enough and willing to spend time doing homework, you can exceed 10 percent annual returns. Active investors also find investing to be thrilling, almost like a hobby. Some active investors try to find undervalued stocks and hold them until they're discovered by other investors. Another class of active investors are short-term traders, who bounce in and out of stocks trying to get quick gains.

You're an active investor if you . . .

- ✓ **Think long-term averages of stocks are meaningless:** Active investors believe they can spot winning companies that no one knows about yet, buy their shares at just the right time, and sell them for a profit.

- ✔ **Are willing to spend large amounts of time searching for stocks:** These are the investors who sit in front of financial TV shows, analyze stocks that look undervalued, and do all sorts of prospecting trying to find gems.
- ✔ **Believe they can hire mutual fund managers who can beat the market:** Some active investors think that certain talented mutual fund managers are out there and that if they just give their money to those managers, they'll win.
- ✔ **Suspect certain types of stocks aren't priced correctly and that many investors make bad decisions:** Active investors believe they can out-smart the masses and routinely capitalize on the mistakes of the great unwashed.
- ✔ **Understand the risks:** Most active traders underperform index funds, some without even realizing it. Before deciding to be an active trader, be sure to test out your skills with online simulations, as I describe in Chapter 2, or make sure that you're measuring your performance correctly, as I describe in Chapter 8. If you're losing money picking stocks, stop doing it. Be sure to know how dangerous active investing can be to your portfolio by reading a warning from the Securities and Exchange Commission here: <http://sec.gov/investor/pubs/onlinetips.htm>.



Many investors try, but very few are able, to consistently beat the market. Consider Bill Miller, portfolio manager for the Legg Mason Capital Management Value Trust mutual fund. Miller had beaten the market for 15 years and turned into a poster child for active investors and proof that beating the market was possible if you were smart enough. But even Miller's streak came to an end in 2006. That's when his Legg Mason Value Trust fund didn't just trail the market, it lagged by a mile, returning just 5.9 percent while the market gained 15.8 percent. The fund lagged the market by 12.2 percent in 2007 and again in 2008 by 18.1 percent. While the fund beat the market in 2009, active investors had already lost their hero. There will certainly be another hot manager to take Miller's place, though.

## *Sites for the active investor to start with*

Ever hear of someone trying to learn a foreign language by moving to the country and picking it up through "immersion"? The idea is that by just being around the language, and through the necessity of buying food or finding the restroom, the person eventually gets proficient.

If you're interested in active investing, you can do the same thing by hitting Web sites that are common hangouts for active investors. By lurking on these sites, you can pick up how these types of investors find stocks that interest them and trade on them. These sites can show you the great pains active investors go through in their attempt to beat the market. A few to start looking at include the following:

- ✓ **Yahoo! Finance** (<http://finance.yahoo.com>) is the finance section of this general-purpose portal and a great resource for all investors. It turns out, though, that the portal contains several elements of particular interest to active investors, such as the Investing Ideas section near the bottom of the page. Here you can find stocks of interest to active investors for certain reasons. The site also offers active chat rooms on almost every stock under the Message Board heading on the left side of the page. I talk about chat rooms in more detail in Chapter 7.
- ✓ **TheStreet.com** ([www.thestreet.com](http://www.thestreet.com)) collects trading ideas and tips from writers mainly looking for quick-moving stocks and other investments.
- ✓ **TradingMarkets** ([www.tradingmarkets.com](http://www.tradingmarkets.com)) explores the details of complicated trading philosophies. The site highlights stocks that have moved up or down by a large amount, which is usually something that catches the attention of traders.
- ✓ **Seeking Alpha** (<http://seekingalpha.com>) provides news and commentary designed for investors of all skill levels who are trying to beat the market.

